

1 approval can then be granted quickly once local competition is enabled. Thus, uncertainty favors  
2 erring on the side of caution and withholding approval until interconnection has been clearly  
3 demonstrated.

4  
5 Premature approval of 271 applications is especially dangerous since new entrant carriers (new  
6 entrants) are so reliant on BOCs to gain even a foothold in local markets, and since the required  
7 cooperation is so multifaceted and complex. Because of these complexities, regulatory oversight will  
8 necessarily be highly imperfect, especially until procedures have been ironed out and  
9 interconnection has been proven to work in practice. To approve Bell Atlantic's 271 application  
10 before the highly intricate and complex interconnection relationships between Bell Atlantic and new  
11 entrants have been demonstrated to work runs the risk of prematurely eliminating the major  
12 incentive for Bell Atlantic to cooperate with its would-be rivals. The number of proposed  
13 undertakings that BA-PA promises within the next few weeks are clear evidence of the strong  
14 incentive for cooperation. It is doubtful that such eagerness to attempt to meet the needs of would-  
15 be rivals would be forthcoming without the 271 incentive. This incentive can be strengthened and  
16 made more meaningful if policy makers insist on demonstrations that the requirements are actually  
17 being met in a commercial setting.

18  
19 I base my conclusions on an economic analysis of the conditions of entry into local exchange  
20 markets. Since not even Bell Atlantic argues that there is widespread local exchange competition  
21 throughout Pennsylvania, my analysis focuses on the prospects for competition in local exchange  
22 markets in Pennsylvania, and the barriers to entry into those markets. Until the barriers are  
23 definitely down, however, and actual competitors are observable in the market, there remains a  
24 very real risk that 271 authorization will adversely affect the emergence of local competition, by  
25 removing much of the pressure on Bell Atlantic to cooperate with new entrants. This would be  
26 contrary to the public interest.

ECONOMIC OBJECTIVES IN 271 APPLICATIONS: GENERAL PRINCIPLES

Q. Describe the factors that should be evaluated in assessing whether in-region interLATA authorization for Bell Atlantic would be consistent with the public interest, convenience, and necessity.

A. There are four major economic and policy objectives that must be balanced in evaluating BOC Section 271 applications to offer in-region long-distance service. Ultimately, determining whether in-region interLATA authorization for Bell Atlantic would be consistent with the public interest, convenience, and necessity turns on the impact of authorization in these four areas. These factors are: (1) expansion of consumer choice in local markets; (2) providing additional competition in interLATA markets; (3) preventing anticompetitive conduct in the provision of exchange access; and (4) leveling the playing field as markets merge.

Q. What is the relationship between 271 applications and your first factor, expansion of consumer choice in local markets?

A. The 1996 Telecommunications Act provides an historical chance to open up local exchange markets, which are the most significant remaining bottleneck monopolies in the telecommunications sector. If our experience in long-distance markets is any guide, the introduction of competition into local exchange markets will generate substantial consumer benefits in the form of new services and lower prices.

Introducing competition into local exchange service will require the cooperation of the incumbent local exchange carriers (ILECs). This cooperation is unlikely to be voluntary: no monopolist, regulated or not, is keen to relinquish its dominant position.

Of course, the Commission, like other State Commissions, has some authority to compel Bell Atlantic to cooperate with would-be competitive local exchange carriers, at least along some well-defined and observable dimensions. But direct regulation of Bell Atlantic's conduct in and of itself

1 will not be enough. There is too much scope for Bell Atlantic to get around the spirit if not the  
2 letter of the interconnection rules, and to impose its own interpretation of its interconnection duties,  
3 at least until many aspects of interconnection are tested in practice and understood by competitive  
4 local exchange carriers as well as the Commission.

5  
6 So long as 271 authorization remains pending, Bell Atlantic has incentives to fix problems with new  
7 entrants in a hurry; once 271 authorization is granted, Bell Atlantic will have fewer incentives  
8 quickly to resolve disputes over the myriad details of interconnection, although new entrants will  
9 remain heavily dependent upon Bell Atlantic. This highly asymmetric situation is simply not as  
10 conducive to resolving the many interconnection issues vital to making local exchange competition a  
11 reality.

12  
13 The implication of this analysis is that the path to genuine local competition will be far smoother if  
14 Bell Atlantic, and the other BOCs, are given incentives to cooperate to make local competition truly  
15 possible, to partially offset their natural economic incentives to protect their monopoly positions.  
16 By insisting, as a condition for entry into in-region interexchange service, that Bell Atlantic  
17 demonstrate that it has put in place the conditions necessary for local competition to flourish, in  
18 practice and not just on paper, the 271 process can be used to induce cooperation. This *quid pro*  
19 *quo* is central to the development of local exchange competition.

20  
21 Q. Please discuss your second factor, providing additional competition in interLATA markets.

22 A. Long-distance entry by Bell Atlantic is not just a reward for providing meaningful interconnection  
23 with local rivals; it has direct implications for long-distance markets.

24 If Bell Atlantic can be prevented from misusing its bottleneck local monopoly to disadvantage its  
25 long-distance rivals, then permitting Bell Atlantic to enter the long-distance market will make that

1 market more competitive. One reason to insist that local competition has truly been enabled before  
2 granting 271 authorization is to reduce the dangers of such misuse.

3 In any overall balancing of impacts on local and long-distance markets, it is important to remember  
4 that the long-distance market in the U.S. is currently far more competitive than are local exchange  
5 markets served by Bell Atlantic. In a very real sense, any customer at this very moment can change  
6 their long distance provider to one of at least three ubiquitous facilities-based long distance carriers  
7 or to one of the hundreds of resellers (including major LECs like the RBOCs outside of their region,  
8 GTE, and SNET). In fact, with the explosion of "dial-around" carriers, an end user does not even  
9 need to switch to be able to use a competing service provider. From 1985 to 1995, local rates have  
10 decreased only 5%, while long distance prices have dropped 70%.<sup>18</sup> Therefore, the incremental  
11 benefits of entry into long distance are likely to be smaller than the corresponding benefits from  
12 entry into local exchange.

13  
14 Three considerations limit any benefits to consumers in long-distance markets from Bell Atlantic's  
15 entry into those markets. First, there is the danger that Bell Atlantic will use its bottleneck local  
16 monopoly to reduce competition in long distance. Second, the benefits from adding another  
17 competitor to the long-distance market are muted in comparison with adding a competitor to  
18 monopolized market. Third, to the extent that Bell Atlantic is a reseller of long-distance services  
19 rather than a facilities-based competitor, its impact on long-distance markets is less pronounced.

20  
21 Q. How does your third factor, preventing anticompetitive conduct in the provision of exchange  
22 access, relate to the public-interest standard?

23 A. Just as in the old Bell System, an integrated provider may have economic incentives to use its local  
24 exchange bottleneck to disadvantage long distance rivals. Because of this danger, one cannot

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<sup>18</sup> True Competition in the Long-Distance Market - MCI Communications Corp, January 27, 1997.

1 conclude that entry by a BOC into in-region long-distance markets will necessarily enhance  
2 competition in long-distance markets.

3  
4 If regulation is ineffective in preventing discrimination against rival interexchange carriers, BOC  
5 entry into long distance actually harms consumers in interexchange markets. Discrimination is  
6 especially harmful to consumer welfare and the public interest because it lowers the quality of  
7 service that interexchange rivals can provide to their customers, with little or no offsetting cost  
8 savings. Economists widely agree that such quality degradation is even more harmful to the public  
9 interest than conventional monopoly overcharges with their associated deadweight losses.

10 Of course, the Commission will attempt to prevent discrimination it can detect, and Congress has  
11 provided certain safeguards, including the structural safeguards in Section 272 of the Act, to reduce  
12 the dangers of discrimination, although the strength of those safeguards remains uncertain as the  
13 FCC has yet to implement the Act in this area. But regulation is necessarily imperfect, no matter  
14 how energetic and foresightful the regulators, so the prospect of discrimination cannot be  
15 discounted. To me, the ongoing danger of discrimination has three implications: (1) the  
16 Commission should factor in this danger in evaluating the net benefit or harm to consumers in long-  
17 distance markets of Bell Atlantic's entry into those markets; (2) if and when Bell Atlantic is granted  
18 271 authority to provide in-region long-distance service, the Commission will have to be vigilant to  
19 prevent discrimination and to act swiftly in response to complaints about discrimination, and  
20 respond forcefully when it detects discrimination; and (3) since the danger of discrimination  
21 diminishes as new entrants gain greater presence in local markets, protecting competition in long-  
22 distance markets provides yet another reason to insist that local competition truly be enabled before  
23 certifying checklist compliance or approving any 271 application of Bell Atlantic.

24 Q. Explain what you mean in saying that the public interest calls for a level playing field as markets  
25 merge.

1       A.       There appears to be an industry consensus that many consumers will value the ability to purchase a  
2               wide range of services -- such as local, long distance, and wireless -- from a single vendor. There  
3               seems little doubt that many industry participants are planning to market bundles of services. I  
4               anticipate that the marketing of bundles of telecommunications services to heavy  
5               telecommunications users will be especially intense. As we look ahead to wide-ranging competition  
6               and converging markets, firms that are unable to offer key pieces of attractive bundles will be at a  
7               competitive disadvantage. Therefore, parity in the ability to bundle services will be important to  
8               full competition in the future.

9  
10              Other things equal, the public interest militates against giving one firm or a group of firms a  
11              significant head start in offering bundled services, especially if those firms can rapidly gain market  
12              share by marketing the bundled services. As Southern New England Telecommunications  
13              Corporation has already demonstrated with its 1994 entry into interLATA markets, interLATA  
14              entry by ILECs can be achieved swiftly. At SNET's annual meeting in May 1996, SNET's  
15              Chairman and CEO Daniel Miglio cited the phenomenal growth in SNET's interstate long distance  
16              market share, stating "In two short years, we have built a new \$80 million revenue stream with a lot  
17              of opportunity to grow." During this period, SNET enjoyed ten consecutive quarters of earnings  
18              growth and a steadily rising stock price. Merrill Lynch has reported that SNET's long distance  
19              subsidiary, SNET America, captured 25% of SNET's local customers within two years of entry,  
20              despite aggressive competition from AT&T. Along similar lines, the Wall Street Journal recently  
21              reported that "Since the spring, [GTE] has turned more than half a million of its local customers  
22              into long-distance clients, siphoning business from AT&T and MCI, and it is signing up new  
23              customers at the rate of more than 6,000 per day", says Chairman Charles R. Lee. (November 5,  
24              1996). Obviously, there is relatively greater ease for a LEC to enter the interLATA long distance  
25              market. Entry has been already been accomplished by hundreds of firms. The entry course has  
26              already been established and tested. Multiple competitive wholesale long distance providers already

1 exist and are ready to provide facilities. Operational and billing systems are already in place to  
2 handle customers' requests to change carriers. In contrast, significant competition in local  
3 exchange markets remains unproven, in Pennsylvania and elsewhere.

4 Likewise, competition will be distorted if one group of carriers is given preferential treatment in  
5 terms of subsidies. Such subsidies can allow one carrier to capture market share from others even  
6 if the subsidized carrier is less efficient. This partially undermines one of the attractive features of  
7 competition, namely that market success is driven by lower costs and/or superior product quality.

8  
9 Q. Telecommunications markets in Pennsylvania are currently in a state of flux. How does that  
10 uncertainty enter into your analysis?

11 A. In balancing the four economic objectives I described earlier, it is important to remember that  
12 uncertainty favors deferring 271 authority until we can be confident that local competition has truly  
13 been enabled.

14 Once approval has been granted, it will be nearly impossible to rescind as a practical matter. On  
15 the other hand, if approval is denied, Bell Atlantic can put in another application as soon as  
16 conditions have changed to warrant approval. When Bell Atlantic submits a 271 application, the  
17 Commission and the FCC should ask whether the public interest is better served by delaying  
18 approval until additional conditions are met.

19 Regarding checklist compliance in particular, this observation implies that policy makers should not  
20 certify compliance until they are confident that Bell Atlantic has truly enabled local exchange  
21 competition.

22  
23 Q. How does an economist determine whether local exchange competition has truly been enabled?

24 A. By far the best proof of the feasibility of local exchange competition is the actual presence of  
25 facilities-based local competitors, i.e., actual competition over independent facilities. The more  
26 widespread is local competition, the more it takes place over facilities outside the control of the

1 ILEC, and the greater number of actual new entrants, the more confident we could be that  
2 conditions are truly conducive to entry and expansion by new entrants.

3  
4 Q. Why is the presence of facilities-based competition more significant than other modes of competition  
5 such as resale or the leasing of elements from Bell Atlantic?

6 A. Facilities-based competition is especially important because it demonstrates that new entrants are  
7 prepared to make substantial sunk investments to serve the market. Facilities-based competition  
8 also is superior to resale competition because it represents far greater competitor independence of  
9 the ILEC. Ultimately, for regulation to wither away and be replaced by competition will require  
10 the presence of strong, facilities-based competitors to Bell Atlantic. Investments in alternative local  
11 loop facilities would be especially significant, as these facilities represent a lasting commitment to  
12 the local market. Congress expected these investments would be made, and repeatedly gave the  
13 example of cable facilities.

14 Facilities-based competitors also represent alternative sources of access services. Resellers do not  
15 serve this function. Widespread competition in the provision of access will help insure that  
16 interexchange markets remain competitive after BOC entry.

17 Competition based on the leasing of network elements is not nearly as significant as true facilities-  
18 based competition. A new entrant who is leasing elements from the incumbent local exchange  
19 carrier clearly remains heavily reliant on the incumbent carrier. Also, sunk investments and  
20 commitment to the market associated with leasing network elements are far lower than those  
21 required of a new entrant building its own loop plant.

22 Still, leased elements are better than resale in terms of offering competition to the ILEC. First, new  
23 entrants who are leasing network elements can offer competition along a number of dimensions that  
24 resellers cannot. Second, resale rates are not based on the underlying costs of the facilities, so  
25 resale competition does relatively little to drive retail rates down towards cost.



1 I would hope that all parties can agree that resale, while offering valuable competition over some  
2 aspects of service (such as marketing, billing, or customer service), is inherently limited and less  
3 meaningful than facilities-based competition. The RBOCs themselves pointed this out in their  
4 motion to vacate the consent decree, where they stated that resellers "do little to further  
5 interexchange competition." (Memorandum of Bell Atlantic, BellSouth, Nynex, and Southwestern  
6 Bell in Support of Their Motion to Vacate the Decree, July 6, 1994, p.70)

7  
8 Q. Is there widespread local exchange competition currently in Pennsylvania?

9 A. It seems clear from the information submitted by Bell Atlantic that actual local competition is  
10 currently *de minimis*. Bell Atlantic sites five CLECs that are "in business" and eight CLECs who  
11 can "begin providing services as soon as they file end user tariffs."<sup>19</sup> Being "in business" and being  
12 able to "begin providing service as soon as they file end user tariffs" is not meaningful competition  
13 and certainly not evidence that interconnection is working in practice. Unfortunately, there is more  
14 to local competition than obtaining certification and filing tariffs. Bell Atlantic also submits  
15 statistics about the number of customers that are within "immediate reach" of CLECs.<sup>20</sup> Being  
16 within reach is not meaningful competition. Neither AT&T nor Sprint yet provides facilities-based  
17 or even resold local exchange service in exchanges served by Bell Atlantic. And, to my knowledge  
18 (and there is no evidence that I could find in the BA-PA submissions), none of the new entrants  
19 provides any significant competitive alternative to Bell Atlantic for exchange services in  
20 Pennsylvania.

21  
22 Q. What are the economic indicators that competition is imminent?

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<sup>19</sup> Declaration of William Harral III, pg. 7

<sup>20</sup> Id, pg. 6. BA-PA describes "immediate reach" as within a mile because based on Mr. Harral's experience he would not find it difficult or unreasonable to extend infrastructure one mile or even more.

1 A. One important indicator of imminent competition in local exchange markets is the expenditure of  
2 significant non-recoverable (sunk) investments by new entrants. Such investments constitute a vote  
3 of confidence that competition is feasible, by those with a direct financial stake in making  
4 competition real. For precisely this reason, mere announcements of plans to offer services are far  
5 less reliable than actual sunk expenditures.

6 Of course, these investments remain at risk, until it has been proven that the entrants can indeed  
7 rely on the ILEC to provide critical inputs. By deferring 271 authorization until Bell Atlantic has  
8 demonstrated its cooperation, local competition is enhanced, entrants' investments are partially  
9 protected from exclusionary tactics by Bell Atlantic, and further investments by new entrants are  
10 encouraged.

11  
12 One role the Commission will play is to make sure that these investments are not stranded or  
13 devalued by problems implementing interconnection with Bell Atlantic.

14  
15 Q. Do all sunk expenditures to provide local telephone services indicate that the entry barriers in local  
16 exchange markets have been lowered?

17 A. No. In evaluating the significance of sunk investments for assessing market participants' beliefs  
18 about the feasibility of local exchange competition, it is important to account for the entire range of  
19 services provided by those investments. For example, due to the presence of economies of scope in  
20 the provision of access and exchange services, some investments in local facilities may be  
21 recoverable through provision of access services, and not reliant on the full range of interconnection  
22 necessary to a new entrant. Thus, the presence of sunk investments alone will not suffice.

23  
24 Q. What do economists look for, in addition to actual entry and significant sunk investments, to  
25 determine whether barriers to entry and effective competition have indeed been lowered?

1 A. In addition to examining the state of actual competition, and the tangible commitments made to the  
2 market by entrants, economists can directly evaluate the conditions of entry to gauge the height of  
3 entry barriers and determine whether potential competition is truly feasible. By identifying entry  
4 barriers and assessing their significance, an economist can try to determine whether a number of  
5 potential new entrants can reliably and easily offer local exchange service to residential and business  
6 customers across the State, and whether competition has effectively been enabled.  
7 Economists also look for market conditions that might impede the ability of market participants to  
8 compete effectively. After all, even if a firm has invested in the local exchange market and entered  
9 that market, its ability to compete and attract customers may still be limited by the ILEC's conduct,  
10 e.g., by providing inferior repair and maintenance services.

11  
12  
13 Q. What standards are appropriate for checklist compliance, in view of your potential entry analysis?

14 A. In economic terms, a key issue in assessing whether a BOC truly is complying with the competitive  
15 checklist is whether the interconnection terms and conditions offered by the BOC are sufficient to  
16 lower entry barriers and enable genuine local exchange competition. The competitive checklist has  
17 been complied with in a manner that is economically meaningful for consumers if and only if  
18 facilities-based competition is a reality and the conditions of interconnection are reliably in place to  
19 enable extensive entry to occur to reduce the monopoly power of the BOC.  
20 In order for entry to be feasible, and for new entrants to be willing to make the additional necessary  
21 investments to provide genuine competition, potential entrants need to be confident that workable  
22 systems are in place on a commercially viable scale. Thus, checklist compliance has to mean more  
23 than having something on paper.

24  
25 If checklist compliance is to be economically meaningful in terms of enabling local competition, the  
26 details must be worked out in practice and agreements must be fully implemented. There are a

1 great many details that really matter for the commercial viability of new entrants. For many of the  
2 terms of interconnection, the interests of Bell Atlantic and new entrants are directly opposed. All of  
3 this implies that it is highly desirable to provide Bell Atlantic with ongoing incentives to cooperate,  
4 in the form of withholding the long-distance entry "prize," until such cooperation has been  
5 definitely elicited and shown to truly enable entry.

6  
7 Q. How will local competition be affected if interconnection arrangements are ambiguous, inadequate  
8 or incomplete for new entrants' needs?

9 A. Absent reliable, working interconnection arrangements, new entrants will be wary of making the  
10 substantial sunk investments necessary to participate fully in local markets, and the investments  
11 new entrants do make will remain at risk. This is certainly true for facilities investments, which are  
12 largely non-recoverable in the event that interconnection problems arise, and thus will depreciate in  
13 value if the terms or conditions of interconnection fail to achieve operational parity between new  
14 entrants and the ILEC. Marketing expenses can also be very significant, and will largely go to  
15 waste if the new entrant is unable to provide high-quality service in a timely fashion once demand is  
16 stimulated by the promotional campaign. Worse yet, Sprint's brand name will be at risk if Sprint  
17 markets a local service of poor quality due to interconnection difficulties of various types. Were  
18 Sprint to introduce local service with quality problems due to interconnection, Sprint could lose  
19 valuable goodwill not only in those local markets, but nationwide.

20 In addition, Sprint, like other new entrants, will have to make substantial investments in back-office  
21 systems to support its entry into local markets. These investments will also remain at risk until the  
22 details of interconnection have been worked out satisfactorily.

23  
24 Q. What are the major entry barriers into local exchange markets?

25 A. Historically, there have been three major entry barriers into local exchange: (1) legal entry barriers  
26 either precluding or raising the costs of entry; (2) the need to make significant sunk investments in

1 plant and equipment, promotional activities, and back-office systems to provide local exchange  
2 service; and (3) the need to interconnect with the ILEC to offer attractive exchange service. (In  
3 providing service to some customers, an additional "regulatory entry barrier" is present if  
4 regulation sets prices for basic exchange service below cost for those customers, making them  
5 unattractive to entrants.)

6 The Act seeks to reduce or eliminate these entry barriers: (1) by minimizing legal barriers,  
7 including not only the State certification requirement but also facilitating access to right-of-way and  
8 pole and conduit access to enable independent construction of facilities by new entrants; (2) by  
9 allowing new entrants to lease unbundled elements, or to engage in resale, rather than constructing  
10 wholly their own facilities; and (3) by imposing interconnection duties upon ILECs, e.g., for  
11 transport and termination, and requiring that reasonable rates be charged.

12 Eliminating these substantial traditional historical entry barriers is no easy task. Thus, somewhat  
13 paradoxically, and as evidenced by the sheer mass of the FCC's rules in its interconnection  
14 proceeding, we need additional regulation for at least an interim period to enable competition, in  
15 the hopes that this very competition will some day replace much of the regulation.

16  
17 Q. Is it necessary to lower these entry barriers to achieve local competition?

18 A. Yes. Unless these barriers are reliably lowered, entry will remain risky, entrants' ability to compete  
19 effectively will remain uncertain, and local competition will not be assured.

20  
21 Q. Why is entry risky until interconnection has been proven to work in practice?

22 A. Until new entrants can be confident that they will obtain interconnection on commercially  
23 acceptable terms that will allow them to achieve operational parity with Bell Atlantic, entrants will  
24 be forced to place substantial sunk investments at risk, which can only serve to delay or deter entry  
25 and the advent of competition. This is especially true for a company like Sprint, with a valuable  
26 brand name that could be put at risk if service quality is degraded due to interconnection problems.

1 I would expect Sprint, AT&T, and MCI to be extremely wary of offering service under their brand  
2 names unless and until they can ensure service quality -- from the pre-ordering of services to the  
3 provisioning of repair -- on par with Bell Atlantic. To do otherwise would put their brand names  
4 at risk in Pennsylvania, and potentially place them at a major disadvantage for years to come in  
5 selling bundles of services in competition with Bell Atlantic.

6 A related risk to a would-be entrant into local exchange of introducing service before operational  
7 parity has been achieved and tested is the risk that the marketing expenses associated with a rollout  
8 of service will be wasted. These are clearly non-recoverable investments. Worse yet, as just noted,  
9 a failed marketing campaign to offer local service will actually make it more difficult to offer those  
10 services in the future.

11  
12 Q. Why is it necessary to work out all the details of interconnection before concluding that competition  
13 is enabled? Can't the details be dealt with later, between new entrants and Bell Atlantic, with  
14 Commission oversight?

15 A. The details cannot be left for later because they are so crucial to new entrants' ability to compete  
16 effectively. Many aspects of interconnection that remain unresolved have significant implications  
17 for either new entrants' costs or the quality of their service.

18  
19 Q. Is entry enabled, to use your language, if one or a few new entrants can compete, but others find  
20 the available interconnection terms unworkable?

21 A. The more local competition the better. Different new entrants, such as cable companies,  
22 interexchange carriers, and competitive access providers, each bring their own strengths and unique  
23 skills to the market. The Act shows that Congress intended to enable a variety of entry strategies.

24 I do not mean to say that all of these new entrants must achieve some fixed level of market  
25 penetration in order for the Commission to certify checklist compliance. Rather, the Commission  
26 should first satisfy itself that the bugs have been worked out of the interconnection process, in a

1 manner that satisfies the needs of a number of types of actual and potential entrants. If new  
2 entrants are providing service on commercial scales in a variety of settings in Pennsylvania, we can  
3 be confident that interconnection is working (although the need for ongoing regulation will not soon  
4 end). On the other hand, if new entrants collectively serve very few access lines, it would be  
5 prudent for the Commission to understand why this is so, before concluding that Bell Atlantic has  
6 complied with the checklist. Also, I would encourage the Commission to investigate the root cause  
7 of why a particular type of new entrant was consistently excluded from entry, to see if the cause was  
8 indeed benign.

9  
10 Certifying checklist compliance in an economically meaningful way cannot be mechanical, and will  
11 require an assessment of the remaining entry barriers into local exchange, if new entrants are not  
12 yet significant actual competitors at the time of the review. If the Commission concludes that  
13 minimal new entrant penetration has resulted from significant remaining uncertainties regarding  
14 the provision of checklist items, or because the terms under which Bell Atlantic is offering certain  
15 checklist items fail to provide nondiscriminatory access by new entrants, certifying checklist  
16 compliance would be inadvisable and inappropriate.

17 The presence of a single, implemented interconnection agreement cannot in and of itself imply that  
18 all entry barriers have been eliminated or that all checklist items have been met. For starters, the  
19 agreement may not be suitable for other new entrants adopting different strategies. Furthermore, a  
20 single agreement may demonstrate that competition can occur for certain customers, or in certain  
21 geographic areas, but not others.

22 If significant aspects of interconnection remain unresolved, new entrants' ability to compete  
23 remains significantly under the control of the BOC. If further cooperation from the BOC is needed  
24 to make actual or potential local exchange competition economically meaningful, approval of the  
25 BOC's 271 application is premature and will diminish consumer welfare.

1 Q. Why can't the Commission simply compel Bell Atlantic to meet reasonable interconnection terms in the  
2 future?

3 A. Regulation is inevitably highly imperfect, and entrants will be reluctant to rely on future, uncertain  
4 regulatory protections when making substantial sunk investments.

5 There is much to be said for stress testing interconnection terms and conditions in practice before  
6 concluding that an interconnection agreement can work in practice and is "fully implemented."

7 Q You have said that Sprint and other new entrants rely on Bell Atlantic in varied and complex ways  
8 in order to offer local service. Aren't these issues resolved through the negotiation and arbitration  
9 process, which is proceeding forward in Pennsylvania?

10 A. I realize that the arbitration process between AT&T and Bell Atlantic will soon be resolved, and I  
11 presume it will help move forward local competition in Pennsylvania. But interconnection is highly  
12 complex, and the detailed implementation of interconnection agreements is absolutely crucial to new  
13 entrant commercial viability. It is prudent to see this agreement, and others, implemented and  
14 working in practice before we conclude that the barriers to local competition really have fallen.



1 Q. Are there specific aspects of interconnection which have yet to be fully implemented in  
2 Pennsylvania?

3 A. Yes. Based on discussions with Sprint personnel who are intimately familiar with Sprint's  
4 negotiations and arbitration with Bell Atlantic, and based on my review of Sprint's arbitration  
5 petition with Bell Atlantic in Pennsylvania, I am aware of a number of specific checklist items that  
6 are critical to Sprint's entry plans and have yet to be proven to work commercially in Pennsylvania.

7  
8 Q. Please give a few examples of individual items of concern to Sprint, and explain why new entrants  
9 would be reluctant to make investments until they are resolved.

10 A. As Mark Smith explains in detail in his Statement operational support systems ("OSS") electronic  
11 interfaces are not currently available and Bell's proposed OSS interfaces are only interim solutions.  
12 Thus, the processing of orders for new service requires cooperation from Bell Atlantic in a variety  
13 of ways, including real-time access to Bell Atlantic's information, that are yet unproven. Sprint is  
14 not willing to make investments, even marketing investments to offer resold services, until it is  
15 confident that customers who actually place orders for Sprint local service will not experience delays  
16 or frustrations in having their orders handled.

17  
18 Likewise, it has not yet been proven how local customers of new entrants like Sprint will have their  
19 repair and trouble calls handled in a non-discriminatory fashion. This will require a number of  
20 repair and maintenance interfaces to operate smoothly. Again, were Sprint to offer local service,  
21 and were Sprint's customers to experience delays in repair relative to Bell Atlantic, Sprint's brand  
22 name would be at risk.

23  
24 More generally, Sprint is concerned over how electronic interfaces between itself and Bell Atlantic  
25 will operate to provide Sprint with reasonable, timely, and economical access to Bell Atlantic's  
26 operations systems, customer records, and billing data. Billing is good example of an area of



*Tamplin*

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**STATE OF GEORGIA**

**GEORGIA PUBLIC SERVICE COMMISSION**

CONSIDERATION OF BELL SOUTH )  
TELECOMMUNICATIONS, INC.'S )  
ENTRY INTO INTERLATA SERVICES )  
PURSUANT TO SECTION 271 OF THE )  
TELECOMMUNICATIONS ACT OF 1996 )

Docket No. 6863-U

**DIRECT TESTIMONY OF**

**JAMES A. TAMPLIN, Jr.**

**ON BEHALF OF**

**AT&T COMMUNICATIONS OF THE SOUTHERN STATES, INC.**

**FEBRUARY 14, 1997**

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is James A. Tamplin, Jr. My business address is 1200 Peachtree Street, NE,  
3 Atlanta, Georgia, 30309-3579.

4  
5 Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL  
6 BACKGROUND AND EXPERIENCE.

7 A. I graduated from the United States Naval Academy with a degree of Bachelor of Science  
8 in Engineering. I also have a Masters of Science Degree in Management from the United  
9 States Naval Postgraduate School in Monterey, California and a Masters of Science  
10 Degree in Information Technology from the George Washington University in  
11 Washington, D.C.

12  
13 I began my career with AT&T Long Lines in 1979 as a Supervisor in the Corporate  
14 Communications organization. In this assignment, I was responsible for the data and  
15 voice communications for the Southern Region Network Operations Center, three  
16 Engineering and Administrative Data Acquisition System Centers, and the 4ESS locations  
17 throughout the Southeastern United States. I became an Operations Supervisor  
18 responsible for all private line service, including DDS and 800, within the state of  
19 Mississippi in 1980. In 1982, I joined the Interstate Tariff group located in New Jersey  
20 and was involved in the planning of AT&T's interstate tariffs for dedicated services. In  
21 1983, I joined AT&T's Southern Region Engineering Staff and functioned as the expert

1 technical witness for all of the nine Southeastern states in hearings before the various state  
2 public service commissions on AT&T's intrastate certification and on the equal access  
3 tariff.

4  
5 I assumed responsibility for the planning of AT&T's dedicated network in the fourteen  
6 Southern states in 1985. In this role, I became intimately involved in the network planning  
7 (facility and SESS switch) for the Department of Defense's Defense Commercial  
8 Telecommunications Network (DCTN), followed by the General Service Administration's  
9 Federal Telecommunications System (FTS2000). In 1988, I joined the project  
10 management group in AT&T's FTS2000 implementation group, and I eventually had  
11 responsibility for the eastern half of the United States, including Puerto Rico and the U.S.  
12 Virgin Islands. In the period 1990 to 1994, I transitioned through a number of jobs on the  
13 FTS2000 project, including responsibility for the facility and switch engineering of the  
14 entire network, establishing and managing the combined order receipt, engineering and  
15 provisioning work center, and finally establishing and managing the process  
16 engineering/management group for the project. In 1994, with the staffing of AT&T's  
17 organization to bid on the replacement contract for DCTN, I established the process and  
18 operations systems engineering/management group. In this capacity I became a member  
19 of AT&T's core team in developing its initial SONET backbone ring deployment plan. In  
20 January of 1996, I assumed my present responsibilities in Atlanta, Georgia.

1 Q. PLEASE DESCRIBE YOUR CURRENT EMPLOYMENT AND THE SCOPE OF  
2 YOUR RESPONSIBILITIES.

3 A. Currently, I am responsible for managing a group of AT&T technical specialists who are a  
4 part of AT&T's Local Services Division. Our primary function is providing technical  
5 support, including the introduction of testimony in regulatory proceedings; chairing  
6 industry workshops; and briefing/training individuals internal and external to AT&T who  
7 are involved in regulatory, legislative, or judicial proceedings.

8

9 Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE ANY STATE PUBLIC  
10 SERVICE COMMISSIONS; IF SO, BRIEFLY DESCRIBE THE SUBJECT(S)  
11 OF YOUR TESTIMONY.

12 A. I have testified before state commissions in Florida, Georgia, Alabama, Mississippi,  
13 Louisiana, North Carolina, South Carolina, Tennessee, and Kentucky on the issue of  
14 AT&T's certification for the provisioning of intraLATA/interLATA services and on the  
15 issue of equal access tariffs in the 1983 to 1985 time period. I also have filed testimony in  
16 at least one of these states on AT&T's ability to provide intraLATA services under the  
17 FTS2000 contract. I have recently testified before this Commission as well as those in  
18 Florida, North Carolina, and Tennessee in the AT&T/BellSouth Arbitration Hearings.

19

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

2 **A.** The purpose of my testimony is to provide an informational framework that the Georgia  
3 Public Service Commission ("the Commission") can use in judging whether the §271  
4 checklist of the Telecommunications Act of 1996 ("the Act") has been implemented in a  
5 manner that will foster local exchange competition, and contribute to accomplishing the  
6 pro-competitive purposes of Georgia law and the Act. My testimony will specifically  
7 show that despite its petition, Statement of Generally Available Terms and Conditions  
8 ("Statement"), and its arbitrated agreements, BellSouth has not yet met the requirements  
9 outlined in section 271 of the Act regarding access to Unbundled Network Elements  
10 (UNEs) and interconnection with BellSouth's local network. In my testimony, I address  
11 three areas of concern for this Commission to review:

12 I. INTERCONNECTION ARRANGEMENTS

13 II. ACCESS TO UNBUNDLED NETWORK ELEMENTS (UNEs) AND  
14 STANDARDS

15 III. ACCESS TO PATHWAYS, POLES, CONDUITS, AND RIGHTS-OF-WAY

16 IV. DIALING PARITY AND PERFORMANCE MEASUREMENTS  
17

18 **Q. DOES BELL SOUTH'S PRELIMINARY STATEMENT OF GENERALLY**  
19 **AVAILABLE TERMS AND CONDITIONS AND ITS ARBITRATED**  
20 **AGREEMENTS PROVIDE SUFFICIENT EVIDENCE THAT BELL SOUTH HAS**  
21 **FULLY COMPLIED WITH SECTION 271 OF THE ACT?**

1 A. No. This Commission has ordered BellSouth to comply with the requirements of the Act  
2 and Georgia law in the Commission's Order addressing the recent AT&T/BellSouth  
3 Arbitration Hearing. BellSouth has stated it intends to do so. However, while it does state  
4 that it will work with the competitive local exchange carriers (CLECs) to provide what the  
5 Commission has ordered, this work is certainly nowhere near complete and clearly does  
6 not demonstrate that BellSouth has fully implemented the competitive checklist

7  
8 BellSouth's Statement references the fact that the Georgia order found that interim  
9 procedures were adequate, but that AT&T and BellSouth need to continue to work on  
10 developing mutually acceptable specific procedures between the two carriers to satisfy the  
11 Act.

12  
13 Today, due to its near monopoly status in the delivery of local service within its region,  
14 BellSouth maintains an enormous competitive advantage in the delivery of local service to  
15 consumers. Allowing BellSouth to begin providing interLATA service to customers in its  
16 region prior to establishing a level playing field would take away a significant incentive for  
17 BellSouth to continue to work with the industry to resolve many of the issues discussed  
18 later in my testimony.

19  
20 Clearly, without an agreed upon interconnection arrangement that has been fully  
21 implemented, or a fully implemented Statement that meets the competitive checklist,



1 AT&T and other CLECs cannot effectively provide service to their customers. The  
2 absence of such an implemented agreement is clearly a competitive advantage to  
3 BellSouth. This Commission must continue to resist the attempts by BellSouth to approve  
4 its petition based on the promise that it will someday actually provide access and  
5 interconnection which may or may not meet the requirements of the Act.

6  
7 In order for an interconnection agreement or Statement of Generally Available Terms and  
8 Conditions to become fully implemented, joint meetings between AT&T's and BellSouth's  
9 subject matter experts are required to develop joint engineering processes, interface  
10 agreements, procedures for interconnection, processes for billing, time frames, collocation  
11 agreements, the bona fide requests (BFRs) process, the dispute resolution process and  
12 others. In addition, the operations support system (OSS) and local number portability  
13 (LNP) issues discussed in the testimonies of AT&T Witnesses Pfau and Danforth detail  
14 two other significant areas for this Commission to consider.

15  
16 AT&T and BellSouth have reached an agreement on these issues but continue to work to  
17 develop the methods and procedures to allow AT&T to obtain the features, functions and  
18 capabilities described in the agreement and competitive checklist. However, despite  
19 BellSouth's assurances that it will continue to work to resolve critical methods and  
20 procedures and make the checklist items available to its competitors in a  
21 nondiscriminatory manner, the simple fact is that today, they are not available to anyone